BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Of	fice Correspondence		Date March 28, 1947
To_	Chairman Eccles	Subject:	

Attached is a copy of the Staff Group report to the Policy Group concerning "Policy Problems Relating to Gold", which, together with the report on "Loans on Gold" of February 7, 1947, will be considered by the Policy Group at its meeting next Tuesday. I shall give you on Monday morning a memorandum summarizing these papers and giving my personal recommendations.

Attachment

Mr. Knapp

... **I**

To: Policy Group on Foreign Interests

Subject: Policy problems re-

From: Staff Group on Foreign Interests lating to gold.

In the following memorandum, the Staff Group desires to present for the information of the Policy Group a discussion of various policy problems relating to gold.

In his letter of February 3 to the Secretary of the Treasury, President Sproul expressed certain views intended to broaden the consideration of the question of gold at the policy-making level. He pointed out the desirability of establishing the United States as a fixed point of reference in the operations of the international gold system and stated that:

"To play this role we must first see to it, it seems to me, that there are no unnecessary obstacles to the free purchase and sale of gold in this country, at the fixed price, for the settlement of international balances. This suggests the need for a reexamination of the Gold Reserve Act of 1934 and the provisional regulations issued thereunder which, perhaps, contain such obstacles. I have in mind, for instance, the license required in connection with every purchase and sale of gold, the handling charge of 1/4 of 1% on all gold purchases and sales, and the power of the Secretary of the Treasury to vary the rates, terms, and conditions of cur purchases and sales of gold at home and abroad. It may well be that the time has now come to remove or to modify these provisions of law and regulation."

These same provisions were referred to by the Staff Group in its memorandum of February 7 to the Policy Group on the subject of loans against gold and were stated to be matters to which the Staff Group expected to give further consideration.

President Sproul also raised in his letter of February 3 to the Secretary of the Treasury, the question of whether it was consistent with national policy for United States commercial banks to be engaging in, or financing, transactions in gold in foreign markets at premium prices. Finally, the question has arisen of what attitude might be taken toward the bill introduced into Congress by Representative Engle of California providing for the free sale within the United States of gold newly mined in this country.

The following sections of this memorandum take up these various matters relating to national gold policy:

Procedure on Gold Transactions in the United States by Foreign Monetary Authorities

Among the factors that cause foreign monetary authorities to feel uncertainty concerning our gold policy, and especially concerning their continued ability to convert dollar balances into gold, one factor is certainly the present requirement that every purchase of gold from the United States by a foreign monetary authority must be the subject of a specific authorization by the Secretary of the Treasury. In connection with this authorization, the purchaser states the purpose for which the gold is to be acquired. Furthermore, if such gold is to be exported without first being placed under earmark, a specific license under the Gold Reserve Act must be obtained. These requirements have the effect of emphasizing continuously the fact that obtaining gold for dollars is not automatic and that this country could at any time discontinue sales of gold.

The present procedure would seem to have arisen from the need that existed in 1934, when the procedures under the Gold Reserve Act were first established, to protect the gold stock of the United States. At present there appears no reason why blanket authorizations and licenses should not be issued (with the approval of the President) and publicly announced by the Secretary of the Treasury, enabling foreign monetary authorities to convert any free (i.e. unblocked) dollar balances into gold (for earmark or for export) without any such formalities. The psychological effect of eliminating such formalities would be of some benefit, although the United States would not be committed irrevocably to selling gold, since the blanket authorization that is suggested here could be terminated at any time.

It seems desirable, therefore, that this whole subject be brought to the attention of the Treasury Department with a view to suggesting a change in the present procedure. We believe that the desired change could be accomplished by amending Treasury regulations, without any need of amending the Gold Reserve Act on this point.

With respect to <u>purchases</u> of gold by the United States, no change in the existing system appears to be necessary at this time, with the exception of the possible elimination of certain technical requirements—for the most part involving "paper" work. (Gold released from earmark is currently being purchased by the Stabilization Fund on authorization in each case to Federal Reserve Bank of New York; and imported fine gold bars are being purchased through Federal Reserve Bank of New York by the Assay Office for the monetary stock under the January 31, 1934 general statement and authorization of the Secretary of the Treasury.) At present, no gold is being purchased unless it is unobjectionable from the viewpoint of the February 22, 1944 declaration regarding Axis—tainted gold.

On transfers of gold from one earmarked gold account to another, some simplification of procedure may be in order, but this apparently does not involve any policy questions requiring the attention of the Policy Group;

if the procedure for <u>selling</u> gold to foreign monetary authorities is simplified as we have suggested above, then presumably a corresponding simplification for the handling of transfers can readily be made.

There is presented in Appendix I a summary of present United States Treasury requirements for licenses, authorizations, and clearances which must be complied with when foreign central banks and governments engage in gold transactions. A fuller description is contained in a survey which has recently been prepared by the Foreign Department of the Federal Reserve Bank of New York, in which there have been collected various announcements, regulations, authorizations, and a statement of practices with respect to the handling of gold transactions of foreign monetary authorities.

The U. S. Treasury's 1/4 Per CentiCharge on Gold Transactions

The Gold Reserve Act of 1934 authorizes the Secretary of the Treasury* to buy and sell gold "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest", and the Treasury regulations issued under this statute have provided since the outset that purchases of gold will be at \$35 an ounce minus 1/4 of 1 per cent and sales at \$35 an ounce plus 1/4 of 1 per cent. If it were desired to reduce or eliminate these charges, either the regulations or the law itself could be amended.

The National Advisory Council recently recommended that the 1/4 per cent charge be waived on purchases from the International Monetary Fund of gold paid in by the United States on its initial subscription. This narrowly-limited action was taken to meet a special situation. More significant departures from present practice that might be considered include (a) reducing or eliminating the charge for all transactions, or (b) eliminating the charge for all transactions with the Fund, while retaining it for foreign central banks and governments.

There appear to be two principal considerations that served to justify the imposition of this charge: the resultant spread between the buying and selling prices of gold deters capricious shifts back and forth between gold and dollars by foreign governments or central banks, and the charges provide additional revenue for the U.S. Treasury and the United States Stabilization Fund. Both of these factors remain operative, and the mere fact that the charge has now been made for some 13 years tends to lead to its perpetuation in the absence of strong arguments to the contrary.

Mr. Sproul points out in his letter of February 3, 1947 to the Secretary of the Treasury, that the keeping of the international gold system in working order seems to require "that there be in the world some fixed point of reference where there is only one price of gold in terms of the domestic currency and where the commodity aspect of gold is submerged in its monetary use". At present, only the United States can serve

^{*} Subject to the qualifications mentioned in the footnote on p. 6.

as such a fixed point of reference, and Mr. Sproul suggests that the continuance of the 1/4 of 1 per cent charge may be regarded as one obstacle to the free purchase and sale of gold which are prerequisites to the realization of such a position. The force of this argument must be weighed against the inertia which exists against change in the present practice; it may be suggested that Mr. Sproul's argument carries significant weight only if it is proposed to eliminate the charge entirely rather than to leave it in effect at a reduced rate.

One effect of eliminating the U.S. Treasury's 1/4 per cent charge would be to make it cheaper for countries having earmarked gold in New York, when needing dollars to meet temporary requirements, to sell and repurchase the gold, whereas in some cases it would now be cheaper to borrow and pay interest on short-term loans. There would thus be eliminated one reason (although probably not an important one) that may now cause countries to borrow on their gold rather than sell it. In some other cases, the elimination of these charges might induce member countries to sell (and repurchase) gold where it would otherwise have been more economical for them to draw on the Monetary Fund.

The question of continuing these 1/4 per cent charges may be affected by the powers given to the Monetary Fund by Article IV, Section 2, of its Articles of Agreement, which provides that "The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin." It seems most unlikely, however, that the Fund would try to prescribe a lower margin than 1/4 per cent if the United States opposed such action. On the other hand, if the United States does decide to eliminate the 1/4 per cent charge, it might, instead of acting unilaterally, offer to do so on condition that the Fund prescribe abolition of margins on dealings in gold by all member countries on a reciprocal basis.

Transactions with the Monetary Fund would presumably not involve the problem of preventing capricious shifting between gold and dollars, and therefore, even if the charge is continued for transactions with foreign central banks and governments, special grounds could be adduced for waiving the charge for transactions with the Fund. The effects of such a policy upon the international movement of gold and upon the gold holdings and earnings position of the Fund, however, would depend on what policies the Fund adopted regarding its charges on purchases of gold from other member countries. In particular, it would be difficult to justify waiving the charge to the Fund if this saving were not passed on by the Fund to other member countries but simply resulted in increasing the Fund's earnings at the expense of the U.S. Treasury. For these reasons, it has been agreed informally between the U.S. Executive Director in the Monetary Fund and the National Advisory Council Staff Committee that consideration of possible changes in United States policy should be deferred until there has been further development of the Fund's position on gold charges.

Sections 8 and 9 of the Gold Reserve Act

In his letter of February 3 to the Secretary of the Treasury, President Sproul suggested that among other aspects of national gold policy which should be taken into consideration at the policy-making level are the terms of the Gold Reserve Act of 1934 and the provisional regulations issued thereunder which may contain certain unnecessary obstacles to the free purchase and sale of gold in this country, at a fixed price, for the settlement of international balances. One of the problems to which the Staff Group has devoted attention in this connection is the phrasing of Sections 8 and 9 of the Gold Reserve Act which appear to delegate to the Secretary of the Treasury certain administrative freedom of action in fixing the price of gold in terms of dollars.

Consideration of this matter is important because, notwithstanding the strong international position of the dollar there do exist, at the present time, economic and other factors which could lead the public to doubt the continued maintenance of the \$35 price of gold. This feeling on the part of many has been accentuated since the war by the general political, economic, and social unsettlement in the world, and most particularly by:

- (1) the depreciation and instability of currencies in many foreign countries;
- (2) the substantial rise in the commodity price level in the United States, from which only the price of gold has been immune;
- (3) the general worldwide price inflation which (combined with a heavy drop in new gold output during the war) appears to have convinced many observers that the world's supply of monetary gold is inadequate to support the postwar world price structure unless the price of gold is increased; and
- (4) the fact that the price of gold in terms of dollars has risen far above \$35 an ounce in various foreign black markets.

The fears or illusions, especially on the part of foreigners, about the stability of the dollar in terms of gold, cannot be entirely removed since even under the Articles of Agreement of the International Monetary Fund the United States retains a certain freedom to alter the par value of the dollar by unilateral action. It would afford some assurance, however, if it could be made clear that a change in the dollar price of gold can be undertaken only by act of Congress and not by administrative action of the Secretary of the Treasury. This point might seem to have been rather clearly established by the Congress when it wrote into the Bretton Woods Agreements Act a provision reading as follows:

"Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . (b) propose or agree to any change in the par value of the United States dollar under Article IV, Section 5, or Article

XX, Section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under Article IV, Section 7 . . ."

However, this provision relates to the par value (i.e. the gold content) of the dollar and not to the market price for gold, and Treasury officials have in the past made a distinction between the two things, particularly in connection with Sections 8 and 9 of the Gold Reserve Act. These Sections (the full text of which is given in Appendix II) empower the Secretary of the Treasury to buy and sell gold in any amounts, at home or abroad, "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest."* Mr. Harry White, in testifying before a Congressional committee in April 1943, stated that

"the effect of utilizing Section 8 (and 9) would be that the market price of the dollar in terms of gold and in terms of other currencies could be made one thing and the statutory price, the normal price of the dollar, in terms of its gold content, could be semething other. The effectiveness of the price of gold lies for the most part, though not entirely, in the value of a currency in terms of other currencies. That is where the power is important although it is not identical with the power to determine the statutory price for gold. . ."

In other words, Mr. White argued that even if the President's authority to change the gold content of the dollar (contained in Section 12 of the Gold Reserve Act), were allowed to expire (this occurred on June 30, 1943), the Secretary of the Treasury would retain the power under Sections 8 and 9 of the Gold Reserve Act to vary the market price of the dollar in terms of gold and thereby change the exchange rate between the dollar and other currencies.

Whatever the merits of this argument may have been, the position has been substantially altered through the subsequent acceptance by the United States in the Articles of Agreement of the International Monetary Fund of obligations which greatly limit any independent freedom of action which the Secretary of the Treasury might otherwise have had under Sections 8 and 9. Article IV, Section 2, of the Fund's Articles of Agreement provides as follows:

"The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin."

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^{*} The power to buy is subject to the approval of the President, and the power to sell is subject to the qualification that the Secretary "may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States only to the extent necessary to maintain such currency at a parity with the gold dollar".

The par value of the dollar cannot be changed without an act of Congress, and under the provision just cited the U.S. Government could not (as in 1933) depreciate the dollar in the exchange markets by buying gold abroad at more than the existing statutory price (plus such margin as the Fund may prescribe). From the legal point of view, this seems to provide an adequate answer to those who believe that the effective dollar price of gold might be increased by unilateral administrative action, at least as long as gold tends to flow on balance to the United States.

However, Article IV, Section 2, of the Fund's Articles of Agreement does not specifically prohibit the United States from fixing its selling price of gold above the par value, a device which could conceivably be used to accomplish a de facto depreciation of the dollar at a time when there was a net gold outflow from the United States. The Article may, to some extent, prohibit such a device indirectly by prohibiting other members of the Fund from buying the gold at such prices, but since in this context "members" means member governments or their fiscal agencies, there is nothing in Article IV, Section 2, to prevent the United States Treasury from selling gold for dollars at prices above par to private traders abroad (and perhaps to monetary authorities of non-member countries). Thus, while the Fund Agreement would prevent that type of gold operation by the United States Treasury which seems to be most feared, it would not in all circumstances prevent gold operations at variable prices if such were the policy of the United States Treasury. So long as Sections 8 and 9 remain in the Gold Reserve Act, therefore, the fears of foreigners and some Americans with respect to the stability of the dollar may receive some nourishment.

Unfortunately the repeal or amendment of Sections 8 and 9 might not fully solve the problem under consideration because there are other provisions of law which might possibly be construed in such a way as to enable agencies of the U.S. Government to buy and sell gold at prices other than \$35 an ounce. Such powers include, for example, the power of the Secretary of the Treasury to "deal in gold" for the account of the Stabilization Fund (Section 10 of the Gold Reserve Act),* and the powers held by the Secretary (and also by certain agencies such as the Reconstruction Finance Corporation) to issue obligations on such terms and conditions as may seem desirable. By Section 14(a) of the Federal Reserve Act, the Federal Reserve Banks are also given broad powers to deal in gold. It would be necessary to close a number of legal loopholes of this sort if it were desired to give firm assurance that the Secretary of the Treasury could not indirectly engage in gold dealings at variable prices.

In conclusion, there appears to be no basic need for the possession of such powers on the part of the Secretary of the Treasury, and it should be pointed out to him that their continued existence may be a disturbing element in the international monetary system.

^{*} With the Stabilization Fund reduced to only 300 million dellars, this power has lost some of its significance.

Gold Operations by United States Banks in Foreign Markets

In his letter of February 3 to the Secretary of the Treasury, Mr. Sproul referred to the fact that "some banks in this country are buying gold abroad, frequently from foreign central banks, at prices in excess of \$35 per fine ounce and selling the gold in foreign markets at a further advance in price". The available information concerning such transactions may be summarized as follows:

Aside from the well-known fact that gold is traded in financial centers all over the world (in some legally and in others illegally) at premium prices in terms of <u>local currency</u>, there also appears to be an active market for gold against <u>dollars</u> in a number of countries. One of the principal causes of this phenomenon, aside from the fact that gold is in many ways a more suitable hoarding medium than dollars, is the conviction which appears to be commonly held abroad that the increase in the dollar price of gold in 1934 proved to be an easy solution of economic problems and that, especially in view of the recent inflation of the price level in the United States, the stage is set for a further increase in the official dollar price of gold in the near future.

According to a list of "Prices of Gold in 'Free Markets' in U.S. Dollars", distributed to subscribers by a firm in New York, the following quotations prevailed at the end of January:

	Dollars	
	Per Fine Ounce	
Stockholm	36.00	
New York (sic!)	37.50	
Zurich	38.00	
Mexico	42.00	
Toronto	46.00	
Santiago	47.00	
Lisbon	48.00	
Beyrouth	52 . 00 .	
Peris	59. 50	
Chungking	63.00	
Istanbul	68.00	
Bombay	71.00	
Cairo	78.00	
Bucharest	83. 00	
Athens	85.00	

The opportunities for arbitrage dealings in gold against dollars between different foreign markets have proved very tempting to American commercial banks. There is increasing evidence to indicate that the banks, although not acting as principals, have been actively engaged in such arbitrage dealings in the capacity of agents for foreign buyers and sellers. Frequently these banks get buying orders "at best" from their customers abroad with instructions to effect the purchase to the debit of the customers' accounts on the books of the New York banks.

These operations seem to have been going on for some little time, but they first received public attention in articles appearing in our press last January dealing with purchases of gold at premium prices by American banks in Mexico at the rate of 30,000 ounces a day and the sale of such gold (at a considerable profit--50 per cent or more) particularly in China and Hongkong but also in the Near East. Unexecuted orders in the hands of one of our banks alone at that time were reported to Federal Reserve Bank of New York at around 100,000 ounces, but several other New York banks are also involved in these transactions. It is difficult to estimate the volume of this kind of business so far put through, but one of our banks has indicated that since January 1946 (that is in thirteen and one-half months) at least \$100,000,000 of gold has been sold to the Near East and Hongkong, much of it through our banks.

The sustained demand at rising prices has in turn prompted our banks to cast about for more sellers abroad and to make bids to those known to have gold, that is, principally foreign central banks. The New York Reserve Bank's first direct knowledge of this phase came from a cablegram from the Banco Central de la Republica Argentina on January 11 stating that that Bank had been approached by a bank in the United States with a view to the purchase of some of the Argentine gold under earmark in New York, and inquiring whether this was permissible under United States regulations. After lengthy conversations with the Treasury, the New York Reserve Bank replied on January 16:

"One We can carry out your instructions for shipment of your earmarked gold to consigned outside of territorial limits of the United States

Two Gold may not be acquired or owned by a bank in the United States if the gold is situated within the United States"

The New York Bank has heard nothing further in this matter.

Whereas at the outset most of the gold for sale in the Near and Far East seems to have been acquired from the Banco de Mexico, of late that bank has suspended such operations, possibly, as suggested by one of the banks in New York, because it could no longer cope with the flood of inquiries and orders received by it. But other countries (Chile, Brazil, etc.) are reported to have become participants in this trade, presumably at times at the instigation of our banks. Of late the latter have also turned to Switzerland, bidding there for gold at prices of \$40 per ounce and more (this information has come directly from the Swiss National Bank). Our own banks state that gold has been acquired in Switzerland by an American bank in lots of around 30,000 ounces at a time at the total cost of around \$42 per ounce. This gold was shipped to Hongkong or the Near East by air and sold at prices which still allowed the payment of a 5 per cent commission to the New York bank.*

^{*} According to advices from Switzerland, the Swiss National Bank on March 4 announced that it would no longer sell gold for arbitrage purposes.

The London bullion market, while closed to British residents (except for dealings in gold for artistic and industrial purposes), is open to non-residents for the import, earmark, and export of gold owned by them. as well as for the transfer of such gold between non-residents. The British do not like gold dealings at what they call exotic prices and, according to a personal note to Mr. Knoke from Mr. Bolton of the Bank of England, they have allowed London firms to participate in this business only as brokers and then at a normal commission charge. This ruling has apparently been rigorously administered despite its effects upon the business of the London bullion dealers. Bolton writes that "The International Monetary Fund has discussed the question but has not yet taken a definite stand. Members of the Fund are apparently not prepared to apply the same restrictions in their own countries that we are applying here." Bolton continues, "... we believe our policy to be in the general international interest as there will be serious monetary consequences if dealings in gold at unofficial and varying prices should become widespread."

This general theme is the same as that adopted by Mr. Sproul in his letter to the Secretary of the Treasury dated February 3, 1947 in which it is pointed out that when important American banking institutions participate in gold transactions against dollars at premium prices, they contribute to monetary instability by encouraging the belief that the dollar is at a discount and may soon suffer a reduction in gold content. Mr. Sproul acknowledges that "such suspicions might not be altogether eliminated by ending the participation of American banking institutions in these gold dealings", but indicates his belief that such a step might do much to clear the air.

While recognizing the validity of this argument, the Staff Group attaches equal importance to a second point made by Mr. Sproul, namely that in most cases these transactions use up dollars which have escaped the exchange controls of foreign countries and which "are being dissipated in the purchase of gold for private hoarding rather than being used for the purchase of goods and equipment sorely needed abroad, or for needed strengthening of official monetary reserves". Participation by our banks in this traffic raises the question of the extent to which the United States desires to see its banking institutions engage in practices inimical to the interests of foreign countries and to our own interests in promoting economic recovery abroad. Mr. Sproul expresses his confidence that in this matter "the principal financial institutions in this market, and in other markets of the country, will follow our lead if we can give them a clear lead applicable to all alike."

Engle Bill Regarding Gold Transactions

"A Bill to permit the sale of gold within the United States, its Territories and pessessions including Alaska" (H.R. 1333) was introduced by Representative Engle of California on January 27, 1947, and referred to the Committee on Banking and Currency. The following is its full text:

"That notwithstanding any law or Executive Order, gold in any form, mined subsequent to the enactment of this Act within the United States, its Territories and possessions, including Alaska, may be bought, sold, or traded upon the open market within the United States, its Territories and possessions, including Alaska, for any purpose whatsoever."

Enactment of the bill would permit resumption of free trading in gold in this country--though not free export--and would allow domestic gold producers to benefit from any premium which might be offered for gold on the open market over the official price of \$35 an ounce (less 1/4 of 1 per cent) which is paid by the United States Treasury. It is clear that the bill is motivated primarily by the second consideration; Representative Engle apparently believes (perhaps with good reason) that private demand for gold in the United States, if permitted to become effective, would greatly exceed the supply of domestically-mined gold and that a market premium for such gold would at once be established.

The Staff Group believes that the proposal has serious disadvantages, and that the bill should be rejected. It sees no reason for conferring a further bounty upon domestic gold production, and considers that the partial relaxation of restrictions on free gold dealings as provided in the bill would have seriously disturbing monetary consequences. It is one thing to propose the resumption of a free gold market in the United States with free sales from the Treasury's gold stock and free export. Some members of the Staff Committee feel that such a proposal deserves further consideration. But it is quite another thing to foster the development of a limited market intended to provide an outlet for domesticallymined gold at premium prices.

The existence of an artificial premium of this character in the United States market would seriously undermine confidence in the value of the dollar, both at home and abroad, and fluctuations in the free market price would stimulate highly undesirable speculative activities. If we are already disturbed about the existence of premium dollar prices for gold in the black markets of foreign countries, we should surely avoid legalizing an artificial premium price market here at home. Furthermore, although the bill does not remove restrictions on gold exports, it is clear that under present circumstances (see p. 8 for dollar prices of gold prevailing in foreign centers) there would be great pressure to smuggle abroad much of the gold released to the domestic market. This particular effect is again due to the piecemeal character of the proposed legislation; the full restoration of free dealings in gold, undesirable as it may be from some other points of view, would at least eliminate the existence of premium prices for 301d in terms of dollars here or abroad.

Appendix I

Summary of Present Treasury "Licensing" Procedure for Gold Transactions Involving Foreign Central Banks and Governments

Purchase of Gold by United States

A. Gold Released from Earmark*

- 1. An authorization of the Secretary of the Treasury to the Federal Reserve Bank of New York is required before Federal Reserve Bank of New York may buy such gold for account of the U.S. Stabilization Fund.
- 2. In each case, approval of the Treasury Department, in the light of the February 22, 1944, gold declaration, is required.

B. Imported Gold

- 1. No Treasury license under the Gold Reserve Act is required. (Secretary of Treasury in statement dated January 31, 1934, announced that, beginning February 1 and until further notice, he would buy imported fine gold bars through Federal Reserve Bank of New York, as fiscal agent of the United States, and other gold through U.S. Mints and Assay Offices.)
- 2. In each case, approval of the Treasury Department, in the light of the February 22, 1944, gold declaration, is required.

^{*} F.R.B. of N.Y., as fiscal agent of U.S., was authorized by letter dated February 7, 1934, from Secretary of Treasury to purchase gold held under earmark for foreign account, but this authority is dormant in view of Treasury's instructions to channel all such purchases through U.S. Stabilization Fund.

Sale of Gold by United States

A. To be Earmarked*

- 1. Gold Reserve Act license is required to hold gold under earmark. Federal Reserve Bank of New York has such license (NY 18-1).
- 2. Authorization of the Secretary of the Treasury to Federal Reserve Bank of New York to sell gold for account of the U.S. Stabilization Fund is required. Foreign monetary authority purchaser must state purpose for which gold is to be acquired; in recent years, sales have been requested, with few exceptions, only for purpose of increasing monetary reserves of foreign monetary authorities.

B. To be Exported*

- 1. Except for gold exported under Article IV of Provisional Regulations issued under Gold Reserve Act of 1934, a license under the Gold Reserve Act is required. Such license can be issued by the Secretary of the Treasury only with the approval of the President.
- 2. Authorization of the Secretary of the Treasury to Federal Reserve Bank of New York to sell gold for account of the U.S. Stabilization Fund is required.

Transactions Not Resulting in a Purchase or Sale of Gold by United States

A. Gold Imported and Earmarked

1. Gold Reserve Act license required to receive and hold gold under earmark. Federal Reserve Bank of New York has such license (NY 18-1).

B. Gold Exported from Earmark

1. Gold Reserve Act license required to export gold from earmark. Federal Reserve Bank of New York has such license (NY 18-1).

^{*} Article IV of the Provisional Regulations issued under Gold Reserve Act of 1934 states that Federal Reserve Banks may acquire from the United States such amounts of gold bullion as, in the judgment of the Secretary of the Treasury, are necessary to settle international balances or to maintain the equal purchasing power of every kind of currency of the United States. Actually, however, at the present time and since 1936, sales of gold to foreign monetary authorities have been supplied from the holdings of the U.S. Stabilization Fund, by Treasury direction.

C. Transfers of Gold from One Earmarked Gold Account to Another

- 1. Gold Reserve Act license required to effect transfer of gold within earmark. Federal Reserve Bank of New York has such license (NY 18-1).
- 2. Authorization required from Secretary of the Treasury except for transfers involving transactions between any two of the following:

England
France
Belgium
Holland
Switzerland

for which blanket authorization was granted following Tripartite Agreement.

NOTE - Gold License NY 18-1 issued to Federal Reserve Bank of New York may be terminated, revoked or modified at any time in the discretion of the Secretary of the Treasury.

March 5, 1947.

Appendix II

Sections 8 and 9 of the Gold Reserve Act of 1934

"SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

'SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury.'

"SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

'SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: Provided, however, That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar.'"